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TAGS: ECON EINV LI
SUBJECT: LIBERIA: CAN LEDFC SALVAGE ITS FLOUNDERING BUSINESS?

REF: 08 MONROVIA 993

¶1. (SBU) SUMMARY: Short on cash and wracked by non-performing loans, the Liberian Enterprise Development Finance Company (LEDFC) will exhaust its operating capital and be forced to close by February 2010 if it cannot raise $1 million in additional funds. Questioning LEDFC's long-term viability, the Robert L. Johnson Foundation has refused to provide additional financing. In the face of a serious cash crunch, LEDFC frankly admits to searching urgently for debt or equity investment, even if on unfavorable terms, and has recast its business model in favor of a more diversified portfolio of many smaller loans. Given LEDFC's high-profile status, its failure would deter other would-be lenders, postponing a deepening in the financial markets that is a pre-requisite for domestic private sector growth. END SUMMARY.

¶2. (SBU) The Ambassador met July 30 with Abraham Ndorfor, General Manager of the Liberian Enterprise Development Finance Company (LEDFC), and Brian King, Country Director of CHF International, the U.S.-based development organization that manages LEDFC, to discuss their strategy for righting an ailing financial institution that has suffered from poor management, an unrealistic business model and deadbeat loan recipients since its inception in 2007.

¶3. (SBU) Delivering on a Clinton Global Initiative commitment, Black Entertainment Television founder Robert L. Johnson, CHF International and the Overseas Private Investment Corporation (OPIC)launched LEDFC, hoping to provide affordable medium-term financing to small and medium enterprises that were underserved by Liberia's limited capital markets. OPIC pledged up to $20 million in loan capital, the Robert L. Johnson Foundation provided a $3 million grant for start-up operating costs, and CHF promised $7 million for business development services.

¶4. (SBU) Despite a highly-publicized launch and strong support from President Ellen Johnson Sirleaf, LEDFC failed to fulfill its early promise. After two years, LEDFC has disbursed only $2 million, seven of its 11 existing loans are delinquent, CHF's promised business advisory funds never materialized, and all of the initial management team has left, resigning in disgust or dismissed by CHF for backing poorly performing businesses (reftel). Recalcitrant borrowers openly refuse to repay their loans, even when their businesses show profits, claiming to believe their loans had really been grants.

¶5. (SBU) The new management team of Ndorfor and King candidly admit LEDFC needs an economic reset, and outlined several steps they are taking to find quality lenders, fund business advisory services and achieve long-term profitability. Indeed, LEDFC's recovery is a matter of some urgency: without monthly loan payments to fund its operating expenses, King said LEDFC will exhaust its $3 million in start-up capital in February 2010.

Smaller Wagers, More Diversity

¶6. (SBU) LEDFC's strategic error may have been betting big on a handful of large loans. Each time one of these 11 original loans -- ranging from $100,000 to $675,000 each -- stopped performing, LEDFC's monthly revenues diminished markedly. In May, LEDFC successfully applied to OPIC to reduce the minimum loan size from $20,000 to $10,000, and Ndorfor said the lender now intends to diversify its portfolio, nurturing companies with an initial small loan accompanied by sustained business advice. When a company proves itself a worthy borrower, and as its business flourishes, subsequent tranches of a loan might follow. To that end, Ndorfor said LEDFC has approved six new loans worth a total of $600,000, and has eight to 10 more in the pipeline worth another $500,000.

In Search of a White Knight

¶7. (SBU) OPIC estimates LEDFC must assemble a loan portfolio worth $10-$14 million to sustain monthly operating costs of $50,000. Although a portfolio composed of increasingly small loans will mitigate risk, LEDFC must seek out and vet dozens of quality borrowers in a market where sound business models are scarce, a feat King acknowledges they cannot achieve before existing operating funds are depleted. Ndorfor conceded that LEDFC is searching desperately for other investors, even if that means relinquishing some equity in the company or contracting debt on less appealing terms.

¶8. (SBU) However, LEDFC's past missteps seem to be deterring

would-be investors. During a July 6 meeting in Washington, Johnson's Foundation told Ndorfor the foundation would provide no additional capital, claiming past credit misjudgments, failure to buttress loans with business advisory services, and slow disbursal of funds eroded its founder's confidence in LEDFC.

¶9. (SBU) Ndorfor told the Ambassador the Soros Economic Development Fund (SEDF) is favorably considering an equity investment, but Ben Matranga, Country Director for Liberia, subsequently downplayed SEDF's interest in a conversation August 3 with Econoff. While SEDF believes there is an unfilled demand in Liberia for five-year loans of $25,000-$100,000, Matranga worries LEDFC's operating expenses are too high, its non-performing loans are too onerous, and that any investment from Soros would be insufficient to both provision bad loans and cover expenses for an 18-month buffer period LEDFC needs to achieve self-sufficiency.

¶10. (SBU) While Matranga characterized Ndorfor as "the kind of impressive businessman you can build an institution around," he questioned the quality of LEDFC's four loan officers, who seem to lack the business acumen or marketing skills to seek out and nurture a sufficient pipeline of loans. SEDF may pursue a parallel loan facility, but given the organizations' shared mission, they would be careful not to duplicate LEDFC's efforts or crowd them out of the market.

¶11. (SBU) COMMENT: If Liberia is to build an economy that rests on more than foreign investment in extractive industries, the development of medium and ultimately long-term financing for Liberian SMEs is essential. LEDFC is the only lending facility that has ventured into this niche, and if it cannot succeed despite support from Robert Johnson, OPIC and President Sirleaf, then few other institutions will dare to replicate this high-risk model. As a result, commercial lending in Liberia will remain focused on trade finance, propagating an import-dependent economy and stifling domestic enterprises that will be unable to hire new employees or make expensive capital investments without access to long-term borrowing.

¶12. (SBU) COMMENT CONTINUED: LEDFC has assembled a credible, well-respected management team that acknowledges past mistakes, offers a concrete plan of corrective action, and intends to work with Post to make LEDFC a success. If the Robert L. Johnson

Foundation were made aware of ongoing USG interest in LEDFC's success, its founder might reconsider his initial refusal of further financing. The question is how much more risk the Johnson Foundation will want to take in LEDFC.

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